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On

BUSINESS TRANSFORMATION & FINANCIAL MANAGEMENT

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Good afternoon Mr. Chairman, Senator Thune, and distinguished members of the subcommittee on Readiness and Management Support. Thank you for inviting me to be with you today and to discuss the Department of the Navy's (DoN) status and progress in transforming its business processes in support of the Navy-Marine Corps team. The Department has made progress but there is still much work ahead of us. For example:

- The Navy is implementing a major ERP application with 14,000 users online today at nine sites and plans to have thousands more online by the end of this year.
- The Marine Corps is well positioned to be the first military service in DoD to achieve a favorable audit opinion of at least one financial statement and other material components of its statements by the end of the year.

The Government Accountability Office has devoted much attention to the pressing issues related to business transformation in DoD and has provided the Service Components and Defense Department with recommendations for process changes and organizational changes. Specifically, GAO has recommended improvements in the areas of

- Management structures and policies for IT investment management
- Service transformation plans and architectures that are fully integrated with Defense Department plans and architectures

Provisions of the last several defense authorization acts align with those recommendations. The Department of the Navy understands these recommendations and provisions and continues to make progress toward improving the business of the Navy and Marine Corps.

Systems

The last time Defense business transformation was discussed by this committee, the DoN's representative was the Chief Information Officer. He related the Navy's and Marine Corps' plans and progress toward creating a seamless infrastructure, process improvements for the management of IT investments, and enterprise-wide governance bodies.

He spoke of the plans and promise of Navy ERP and I can report today that implementation has begun. As we speak, 14,000 employees of the Naval Air Systems Command are using an ERP system for payroll, accounting, and other business functions. Valuable lessons from the ERP pilot projects were incorporated. This investment provides the cornerstone of a better integrated, more automated and better controlled business environment. It is compliant with the processes and accounting standards delineated in the DoD business enterprise architecture. By the end of the year, DoN plans to have approximately 10,000 additional employees using this ERP. With DoD oversight, this Major Automated Information System achieved Milestone C approval (limited deployment based on achieving programmatic objectives) on time and is currently serving as the financial system of record at NAVAIR for both general fund and working capital fund activities. The current program of record, when completed in 2012 will account for nearly 50% of the Navy's total obligation authority. We are looking to further develop this financial backbone as quickly as prudent management and resources allow.

The DoN has been an active participant in the Defense Business Systems Management Committee (DBSMC), represented initially by the former Undersecretary with continuity provided by the CIO. The DoN has established and is executing an oversight process to conform

with the investment review criteria first mandated by Congress in the National Defense Authorization Act for 2005.

The DoN Business Transformation Council, which I will discuss later in more detail, was chartered to bring senior executive leadership to bear on business transformation issues and to provide enterprise-wide direction and execution oversight. The Functional Area Management (or FAM) structure was created to involve process owners in enterprise transformation.

The FAMs are led by senior leaders within organizations responsible for functional areas such as acquisition, financial management, and logistics, and are charged with overseeing the reduction and consolidation of IT investments in their areas consistent with Departmental and DoD strategy and policy.

Progress continues to be made toward creating a seamless infrastructure and to develop enterprise-wide standards. The benefit of doing so is obvious. Given the myriad functional tasks of the Department, its expeditionary nature, and organizational complexity, creating a standard architecture is a challenge no corporate entity has ever faced. The Department is moving forward, but the complexity cannot be overcome quickly.

One of the recent criticisms by GAO of DoD's approach to business transformation was a perceived overemphasis on systems and technology at the expense of other aspects of transformation. Let me accordingly broaden the picture of business transformation in the Department of the Navy.

Process & People

In 2002, the Chief of Naval Operations laid out the Sea Power 21 vision that included a business transformation element known as Sea Enterprise. The goal was cost-consciousness, to find more efficient ways of doing the Navy's business. Since then, the program has matured into Naval Enterprise. Teams are actively seeking the links between processes, funding levels, asset utilization, manpower and combat readiness. Conceptually viewing the Navy as a matrix of support providers and combat capability providers, they are seeing beyond functional and organizational stovepipes. Instead of mission at any cost, we are seeking readiness at the right cost. Such a cultural transformation of improved systems thinking with an eye on business functions is an important enabler and is critical for ensuring operational needs are met while implementing change.

Disciplined, documented and controlled processes are the hallmark of our nation's maritime force; it makes them effective at sea and expeditionary maneuver ashore. Such thinking has not consistently translated into the business environment, but there is evidence that tide is turning.

The Secretary of the Navy challenged the Department to achieve greater efficiency and improved effectiveness. The Department adopted Lean Six Sigma as a best practice tool of choice. Thousands of projects, large and small, have been conducted with positive results. For example:

- The Naval Sea Systems Command (NAVSEA) conducted several value stream analyses designed to achieve annual cost reductions of $200M in Virginia Class submarine construction. Streamlining construction planning processes can save over $69M.

- PEO (Aircraft Carriers) reviewed the Aircraft Carrier Mid-Life Refueling Complex Overhaul (RCOH) designed to increase aircraft carrier availability. Two major processes (delivery to Post Shakedown Availability and Selective Restrictive Availability) can be incorporated into other processes or eliminated, resulting in ten months of additional operational time; the equivalent of an extra deployment over the life of a carrier.

The Department's financial statement audit readiness plan identified areas where enhanced internal controls and better defined business processes can support audit readiness. Such improvements in internal controls are consistent with OMB Circular A-123 and are clearly in line with the spirit of the 2006 (Section 376) and 2007 (Section 321) authorization act provisions that financial management improvement activities should improve controls and result in sustained improvement.

The Department is not only working to create a culture and attitude of business transformation within its military services, it is dedicated to aligning its efforts with the rest of DoD. The Department of the Navy Financial Improvement Program integrates with the DoD Financial Improvement and Audit Readiness (FIAR) Plan. We work closely with OUSD(Comptroller) and other military services to better align our process and internal control improvement efforts with the broader DoD business transformation plans. In the Marine Corps, a focused financial improvement initiative is positioning the Corps to be the first DoD military service that is "audit ready." The Marine Corps has made process standardization and increased internal controls the hallmark of its business transformation efforts. They can point to tangible benefits in terms of

reduced reverted balances, reduced cost of financial processes, and improved transparency of financial information to inform resource allocation decisions.

The Department of the Navy embraces DoD's federated concept of tiered accountability. This federated approach requires that Enterprise wide systems are used for enterprise wide functions and adhere to DoD-wide standards, while also recognizing unique needs the components have to support Title 10 requirements. The Navy believes it has partnered well with the Business Transformation Agency, specifically in reviewing and validating Navy ERP processes. The DoN Financial Improvement Plan aligns with OSD's Financial Improvement and Audit Readiness Plan (FIAR).

Finally, in terms of organization, the DoN Business Transformation Council (BTC) I mentioned earlier was chartered in 2006 to bring senior executive leadership to bear on business transformation issues and to provide Enterprise-wide policy direction and execution oversight. It is chaired by the Undersecretary of the Navy. The BTC can serve a role in the DoN similar that served by the DBSMC for the DoD. The Functional Area Managers described previously are aligned to their corresponding DoD Investment Review Boards, and constant communication is maintained via the CIO's staff. The CIO office meets regularly with senior financial leadership to ensure projects are being executed under the framework of our emerging architecture and transition plans.

The continuous efficiency-seeking activity of business transformation should be understood as a stewardship issue in support of the operating forces. The DoN is responsible to the Combatant

Commanders, the President, the Congress and the public to be a good steward of the resources it manages. DoN is also responsible to support the varied requirements of the operating forces. The policies and processes of business transformation must align with and efficiently support operational requirements.

Mister Chairman, members of the subcommittee, the Department of the Navy has taken important steps in transforming its business, but recognizes that much work remains. Real progress is being made on multiple fronts: systems, processes, organizational structures, culture, and audit readiness. The Navy is balancing the competing demands of doing it quickly and doing it well. The DoN is committed to the idea of business transformation achieved through a disciplined and integrated approach. GAO has provided helpful templates and recommendations; BTA has been a valuable partner. The Department is dedicated to continuing to make transformational change in the management of its business systems. We appreciate this committee's interest and support in the matter and look forward to our continued cooperation. I would be pleased to respond to any questions you may have about the Department of the Navy's business transformation initiatives.